

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND  
(A Fund of the State of South Dakota)**

**AUDIT REPORT**

**Fiscal Year Ended June 30, 2012**

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND  
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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Dennis Daugaard  
Governor of South Dakota

and

South Dakota Board of Economic Development

We have audited the financial statements of the South Dakota Revolving Economic Development and Initiative Fund as of and for the year ended June 30, 2012 and have issued our report thereon dated November 2, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the South Dakota Board of Economic Development is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the South Dakota Board of Economic Development's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South Dakota Board of Economic Development's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South Dakota Board of Economic Development's internal control over financial reporting.

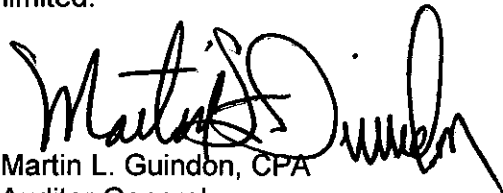
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Dakota Revolving Economic Development and Initiative Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and members of the South Dakota Legislature and is not intended to be and should not be used by anyone other than those specified. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Martin L. Guindon", is written over the printed name and title.

Martin L. Guindon, CPA  
Auditor General

November 2, 2012



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MARTIN L. GUINDON, CPA  
AUDITOR GENERAL

## INDEPENDENT AUDITOR'S REPORT

The Honorable Dennis Daugaard  
Governor of South Dakota

and

South Dakota Board of Economic Development

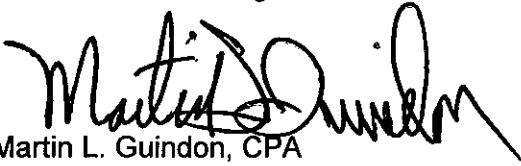
We have audited the accompanying financial statements of the South Dakota Revolving Economic Development and Initiative Fund, as of and for the fiscal year ended June 30, 2012, as listed in the Table of Contents. These financial statements are the responsibility of the South Dakota Board of Economic Development's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the financial position, and changes in financial position and cash flows of the South Dakota Revolving Economic Development and Initiative Fund. They do not purport to, and do not, present fairly the financial position of the State of South Dakota as of June 30, 2012, and the changes in its financial position and its cash flows, where applicable, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Dakota Revolving Economic Development and Initiative Fund as of June 30, 2012, and the respective changes in financial position and cash flows thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2012 on our consideration of the South Dakota Board of Economic Development's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Martin L. Guindon, CPA  
Auditor General

November 2, 2012

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND  
STATEMENT OF NET ASSETS  
June 30, 2012

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents (Note 2C)	\$ 52,818,366
Accounts Receivable - Bankwest	417,866
Loan Interest Receivable	61,011
Investment Income Receivable	167,006
Loans Receivable (Net) (Note 2F)	<u>9,244,163</u>
Total Current Assets	<u>62,708,412</u>

**Noncurrent Assets:**

Equipment (Net) (Note 2E)	12,209
Loans Receivable (Net) (Note 2F)	<u>36,096,263</u>
Total Noncurrent Assets	<u>36,108,472</u>

<b>TOTAL ASSETS</b>	<u><u>98,816,884</u></u>
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**LIABILITIES**

**Current Liabilities:**

Accounts Payable	16,115
Wages Payable	25,136
Grants Payable	15,941
Accrued Leave Liability (Note 5)	16,506
Due to Other Funds	<u>4,490</u>
Total Current Liabilities	<u>78,188</u>

Noncurrent Portion of Accrued Leave Liability (Note 5)	<u>14,462</u>
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<b>TOTAL LIABILITIES</b>	<u><u>92,650</u></u>
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**NET ASSETS**

Investment in Capital Assets	12,209
Unrestricted	<u>98,712,025</u>

<b>TOTAL NET ASSETS</b>	<u><u>\$ 98,724,234</u></u>
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The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
For the Fiscal Year Ended June 30, 2012

Operating Revenue:	
Interest Income on Loans	\$ 1,383,374
Other Income	122,979
Total Operating Revenue	<u>1,506,353</u>
Operating Expenses:	
Personal Services and Benefits	140,963
Travel	17,501
Contractual Services	271,830
Supplies and Materials	12,729
Grants and Subsidies	54,345
Depreciation Expense (Note 2E)	4,440
Total Operating Expense	<u>501,808</u>
Operating Income	1,004,545
Nonoperating Revenue (Expense):	
Investment Income	880,099
Motor Fuel Tax Refund Income	135,000
Services Provided to Others (Note 2G)	(251,832)
Total Nonoperating Revenue (Expense)	<u>763,267</u>
Income Before Transfers	1,767,812
Transfers:	
Transfers in – Ethanol Fuel Fund (Note 2I)	2,000,000
Transfers In – State Land Sale Proceeds (Note 2I)	2,612,585
Total Transfers	<u>4,612,585</u>
Change in Net Assets	6,380,397
Beginning Net Assets	<u>92,343,837</u>
End of Year Net Assets	<u>\$ 98,724,234</u>

The notes to the financial statements are an integral part of this statement.

SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2012

<b>Cash Flows From Operating Activities:</b>		
Receipts for Loan Repayments	\$ 11,128,975	
Payments for Loans Originated	(8,193,465)	
Receipts from Customers and Users	122,978	
Payments for Employee Services and Benefits	(134,061)	
Payments for Interfund Services Used	(45,874)	
Payments to Suppliers and for Claims	(295,172)	
Net Cash Provided (Used) by Operating Activities		2,583,381
<b>Cash Flows From Noncapital Financing Activities:</b>		
Transfers in – Ethanol Fuel Fund	2,000,000	
Transfers In – State Land Sale Proceeds	2,612,585	
Motor Fuel Taxes	135,000	
Services Provided to Others	(251,832)	
Net Cash Provided (Used) by Noncapital Financing Activities		4,495,753
<b>Cash Flows From Investing Activities:</b>		
Pooled Investment Income	932,264	
Net Cash Provided (Used) by Investing Activities		932,264
Net Increase in Cash and Cash Equivalents During the Fiscal Year		8,011,398
Cash and Cash Equivalents at Beginning of Year		44,806,968
Cash and Cash Equivalents at End of Year		<u>\$ 52,818,366</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>		
Operating Income (Loss)	\$ 1,004,545	
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>		
Depreciation/Amortization Expense	4,440	
<b>Decrease/(Increase) in Assets:</b>		
Loans Receivable	1,895,236	
Loan Interest Receivable	5,144	
Accounts Receivable - Bankwest	(352,513)	
<b>Increase/(Decrease) in Liabilities:</b>		
Accounts Payable	3,106	
Wages Payable	1,224	
Grants Payable	15,941	
Accrued Leave Liability	5,678	
Due to Other Funds	580	
Total Adjustments	1,578,836	
Net Cash Provided (Used) by Operating Activities		<u>\$ 2,583,381</u>

The notes to the financial statements are an integral part of this statement.

**SOUTH DAKOTA REVOLVING ECONOMIC DEVELOPMENT  
AND INITIATIVE FUND  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2012**

**1. AUTHORIZING LEGISLATION**

The South Dakota Revolving Economic Development and Initiative Fund (REDI Fund) was created in 1987 by an act of the South Dakota Legislature. The REDI Fund was established for the purpose of making loans for economic development. The REDI Fund is a fund of the State of South Dakota and is administered by the Governor's Office of Economic Development (GOED).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Fund Accounting**

The REDI Fund is accounted for as an enterprise fund. Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. The REDI Fund is a part of the State of South Dakota and, as such, the accompanying financial statements are included in the Comprehensive Annual Financial Report of the State of South Dakota.

**B. Basis of Accounting**

The REDI Fund follows the accrual basis of accounting. This method of accounting recognizes the financial effect of transactions, events, and interfund activities when they occur, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as investment earnings and services provided to others are reported as nonoperating. The REDI Fund follows all Governmental Accounting Standards Board (GASB) pronouncements and those Financial Accounting Standards Boards Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

**C. Cash and Investments**

Cash includes cash on hand and a participating interest in the State's internal investment pool held by the State Treasurer and is used for the purposes of reporting cash flows. The amount held in the State's internal investment pool is reported at fair value.

Management of the State's internal investment pool is the statutory responsibility of the South Dakota Investment Council (SDIC). The investment policy and required risk disclosures for the State's internal investment pool are presented in the SDIC's audit report which can be obtained by contacting the Department of Legislative Audit, 427 South Chapelle, c/o 500 East Capitol, Pierre, South Dakota 57501.

#### D. Value Added Agriculture Subfund Projects

The Board of Economic Development (BED) approves projects funded from the Value Added Agriculture Subfund in the form of loans, grants or loans/grants. For financial reporting purposes, the BED estimates that 10% of the projects financed as loans/grants during the year will be repaid in the form of loans and records this estimate as loans receivable in the financial statements with the balance of the financing reported as a grant expense. Upon project completion, the BED evaluates the feasibility of the project and determines if the funds provided are considered a grant or will be repaid in the form of a loan.

#### E. Capital Assets

Assets are capitalized based on policies established by the South Dakota Bureau of Finance and Management. Capital assets are capitalized at cost or estimated historical cost, if the original cost is unavailable. Equipment is capitalized when the cost of individual items is \$5,000 or more. Depreciation on capital assets is computed using the straight line method over the estimated useful lives of the assets, which is 3 to 10 years for all assets. When assets are disposed of, the costs and related accumulated depreciation are removed from the accounts and any gain or loss is reflected in the results from operations in the period of disposal.

A summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	<u>Balance 7/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 6/30/12</u>
Equipment	\$ 27,599	\$ -0-	\$ -0-	\$ 27,599
Accumulated Depreciation	10,950	4,440	-0-	15,390
Capital Assets, Net	<u>\$ 16,649</u>	<u>\$ 4,440</u>	<u>\$ -0-</u>	<u>\$ 12,209</u>

#### F. Loans Receivable

Loans receivable at June 30, 2012, is shown net of the allowance for doubtful loans of \$1,665,833.

#### G. Services Provided to Others

Earnings on the Revolving Economic Development and Initiative Fund and the Value Added Agriculture Subfund may be used for the administrative costs of the Division of Finance of the Governor's Office of Economic Development per SDCL 1-16G-24. Earnings used for the administrative costs of the Division of Finance of the Governor's Office of Economic Development totaled \$251,832 for the year ending June 30, 2012.

#### H. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results could differ from those estimates.

## I. Transfers

During the 2011 legislative session the legislature designated \$2,000,000 to the REDI Fund from the Ethanol Fuel Fund for fiscal years 2012 to 2016.

During the 2011 legislative session the legislature designated funds provided from the sale of State surplus property. \$2,612,585 was received from the sale of State land for the fiscal year ended June 30, 2012.

## 3. VALUE ADDED AGRICULTURE SUBFUND ACTIVITY

During the 1999 legislative session the Value Added Agriculture Subfund was created within the REDI Fund. The legislature designated three million dollars from the REDI Fund for the purpose of making grants or loans for value added agricultural products. It also designated three cents per gallon of each motor fuel tax refund on any purchases of motor fuel after July 1, 1999, for the purpose of this fund. During the 2011 legislative session the three cents per gallon designation was eliminated and a set amount of \$135,000 per fiscal year was designated for the fiscal years beginning after June 30, 2011.

The following is a breakdown of the activity in the subfund for fiscal year 2012 and its corresponding net assets at June 30, 2012:

	Value Added Agriculture SubFund
Beginning Net Assets	\$ 3,894,838
Grant Expense	(58,612)
Grants Estimated to Become Loans	4,267
Motor Fuel Tax Refund Income	135,000
Bad Debt Expense	(143,304)
Investment Income	82,439
Ending Net Assets	<u>\$ 3,914,628</u>

## 4. COMMITMENTS

At June 30, 2012, the REDI Fund has the following commitments:

Value-Added Agriculture projects approved by the South Dakota Board of Economic Development but not disbursed at June 30, 2012 -----	\$ 358,866
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REDI Fund loans approved by the South Dakota Board of Economic Development but not disbursed at June 30, 2012 -----	\$ 20,200,000
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South Dakota Economic Development Finance Authority for the Agriculture Processing and Export Loan Program (RECD Intermediary Relending Program) -----	\$ 325,000
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## 5. ACCRUED LEAVE LIABILITY

Annual leave is earned by all employees. Upon termination, employees are eligible to receive compensation for their accrued annual leave balances. Employees who have been continuously employed by the State of South Dakota for at least seven years prior to the date of their retirement, voluntary resignation or death will receive payment for one-fourth of their accumulated sick leave balance, such payment not to exceed the sum of twelve weeks of employee's annual compensation. The total leave liability of \$30,968 at June 30, 2012 is shown as short and long-term liabilities on the Statement of Net Assets.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued Leave Liability	\$ 25,291	\$ 29,977	\$ 24,300	\$ 30,968	\$ 16,506

## 6. RETIREMENT PLAN

The GOED participates in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer defined benefit pension plan established to provide retirement, disability, and survivor benefits for employees of the State and its political subdivisions. Authority for establishing, administering and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements, footnote disclosures, and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Employees are required by state statute to contribute 6 percent of their salary to the plan. State statute also requires the employer to contribute an amount equal to the employee's contribution. The right to receive retirement benefits vests after three years of credited service. The GOED's contributions to the SDRS for the fiscal years ended June 30, 2012, 2011 and 2010 were \$18,840, \$18,136 and \$19,347 respectively, equal to the required contributions each year.

## 7. PUBLIC ENTITY POOL FOR LIABILITY

The GOED is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The GOED is uninsured for property loss. The GOED participates in the various programs administered by the State of South Dakota. These risk management programs are funded through assessments charged to participating entities. The risk management programs include; 1) coverage for risks associated with automobile liability and general tort liability (including public officials' errors and omissions liability, medical malpractice liability, law

enforcement liability, and products liability) through the State's Public Entity Pool for Liability Fund, 2) coverage of employee medical claims through the State's health insurance program, 3) coverage for unemployment benefits through the State's Unemployment Insurance Fund, and, 4) coverage for workers' compensation benefits through the State's Workers' Compensation Fund. Financial information relative to the self-insurance funds administered by the State is presented in the State of South Dakota Comprehensive Annual Financial Report.

#### 8. SUBSEQUENT EVENTS

On July 10, 2012 GOED forgave a loan in the amount of \$147,806 from Midwest Biodiesel Producers. The loan receivable balance for Midwest Biodiesel Producers was recognized as bad debt expense for the year ended June 30, 2012.